



November 4, 2005

The Board of County Commissioners and Citizens of Lee County
Lee County, North Carolina

Laws of the State of North Carolina, along with policies and procedures of the North Carolina Local Government Commission, require that all local governments in the State publish a complete set of financial statements annually. The financial statements must be presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of Lee County for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the costs of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Martin Starnes & Associates, CPAs, P.A., have issued an unqualified ("clean") opinion on Lee County's financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

Lee County, founded in 1907, is located on the fall line dividing the Piedmont and Coastal Plains regions of the state. It has a land area of 255 square miles and a population of 54,417. There are two municipalities within the County, the largest being the City of Sanford, which serves as the County seat. The County has a commissioner/manager form of government. The Board of Commissioners is a seven-member board. Four members are elected in districts on a partisan basis. Three members are elected at-large on a partisan basis. The district commissioners and at-large commissioners serve staggered four-year terms. Commissioners hold policy-making and legislative authority. They are also responsible for adopting the budget and appointing the county manager. The manager is responsible for implementing policies, managing daily operations, and appointing department heads.

The County provides its citizens a wide range of services, which include general government, public safety, economic and physical development, human services, education, cultural and recreation, and debt retirement. The County also provided water and sewer services through a legally separate Water and Sewer District, which functioned, in essence, as a department of the County and therefore has been included as an integral part of the County's financial statements.

The annual budget serves as the foundation for the County's financial planning and control. The County has a formal budget process, which begins in February of each year. The Board of Commissioners receives the recommended budget in May. The Board of Commissioners is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the County's fiscal year. Legal budgetary control for operating budgets is exercised at the fund and department level. The County Manager may make transfers of appropriations of any amount within a department and up to \$5,000 between departments. Transfers of appropriations between departments in excess of \$5,000 require the special approval of the Board of Commissioners. Formal budgetary integration and encumbrance accounting are employed as management control devices during the year. Budget to actual comparisons are provided in this report for each individual governmental fund and proprietary funds for which an appropriated annual budget has been adopted.

The Local Economy

Lee County is geographically located at the southern base of the Research Triangle Region, including the cities of Raleigh, Durham, and Chapel Hill. Major industries located within the government's boundaries or in close proximity include manufacturers of pharmaceuticals, automobile components, cosmetics, plumbing fixtures, electronic and brick.

Through the combined efforts of excellent County and City leadership and organizations such as the Lee County Economic Development Corporation, the Lee County Committee of 100 and the Sanford Area Chamber of Commerce, the County's economic base continues to expand. Wyeth, Caterpillar and Static Control Components continue expansion of facilities and jobs. Wyeth has added an \$85 million quality control lab to its campus in Lee County. Approximately 200 new jobs were added with that facility bringing Wyeth's total employment to 1,400. Caterpillar completed improvements to allow for additional facilities totaling 50,000 square feet and added 75 jobs. Static Control Components averages adding 100 new employees per year and now occupies 28 buildings in Lee County with total square footage coming to 1,300,000. Lee Brick and Tile has also started a \$25 million brick manufacturing facility expansion.

The retail and service industry continues to grow along with our population. Our hotels and restaurants enjoy the influx of people visiting Lee County during the annual pottery festival and other downtown festivals. The City of Sanford is becoming a destination for the pottery industry and other artists in jewelry, stained glass, woodworking and painting. New showrooms are open in the downtown area all with art created in Lee County. Lee County boasts a golf course designed by Mike Strantz called Tobacco Road and two Robert Trent Jones, Jr. courses at Carolina Trace.

Lee County has recently received official notification from the US Census Bureau that the July 2004 population estimate for Lee County had been adjusted from 49,162 to 54,417 or an increase of 5,255 people. The County feels that this is a much more accurate reflection on the dynamics of the local market and will be a positive influence for businesses making decisions about Lee County.

Long-term Financial Planning

The Board of Commissioners adopt a five year Capital Improvements Program (CIP) annually. The CIP addresses all major capital improvements for governmental activities and includes projects for Lee County Board of Education and Central Carolina Community College

The Board of Commissioners in effort to plan for the future of Lee County adopted a set of financial policies on May 3, 2005. Those policies address debt, fees and user charges, and fund balance.

Accomplishments and Initiatives

During the year, the County was involved in a number of major projects, some of which will not be completed until future years. Highlights of these projects are discussed in the following paragraphs:

Central Carolina Community College – After many delays due to bad weather, the Telecommunications Building, located in the Lee County Industrial Park, opened its doors to students in October 2005. The Community College has completed the design phase for an emergency services training facility that the County is funding with proceeds from the Certificates of Participation that were issued in January 2004.

Lee County Industrial Park – On May 5, 2003 the Board of Commissioners authorized \$2.7 million for Phase 1 of the expansion of the Lee County Industrial Park. Phase 1 which included a road and sewer (lift station and gravity flow) is substantially complete. This project has allowed the Lee County Economic Development Corporation to add an additional 450 acres to the industrial park and by adding the infrastructure has created the potential of another 1500 acres of commercial development along the US 1 corridor. A connector road is complete between Womack and Colon Road to serve the different phases of the park.

Schools – In January 2004, the Board of Commissioners issued Certificates of Participation to finance the costs of a new high school for Lee County. Southern Lee High School opened in August 2005 to its first freshmen, sophomore and junior classes. Also included in the project is a park/athletic facility, for which the County has received a PARTF grant for land acquisition and site development work. Future development is contingent upon receiving additional funding from federal and state recreation grants. Future plans call for an additional middle school to be built on the same property adjacent to the high school.

The County will continue to make strides to develop infrastructure, public education facilities, and other improvements that will facilitate steady economic growth that Lee County has enjoyed over the past ten years.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Lee, North Carolina, for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the ninth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the assistance and dedication of the staff of the Finance Department. We would like to thank Martin Starnes & Associates, CPAs, P.A., the County's independent auditors, for their guidance in preparing this report. In addition, we wish to express our appreciation to Board of Commissioners for their continued support and leadership in conducting the financial affairs of the County.

Respectfully submitted,



David M. Smitherman
County Manager



Lisa G. Minter
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Lee,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehlke

President

Jeffrey R. Emer

Executive Director

COUNTY OF LEE, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2005

COMMISSIONERS

Herbert A. Hincks, Chairman

William Chad Adams, Vice Chairman

Jerry M. Lemmond

Amy L. Stevens

Robert H. Brown

Nathan E. Paschal

Robert T. Reives

COUNTY OFFICIALS

David M. Smitherman

County Manager

Gaynell Lee

Clerk to the Board

Kenneth R. Hoyle

County Attorney

Lisa G. Minter

Finance Officer

Billy A. Bryant

Sheriff

Mollie McInnis

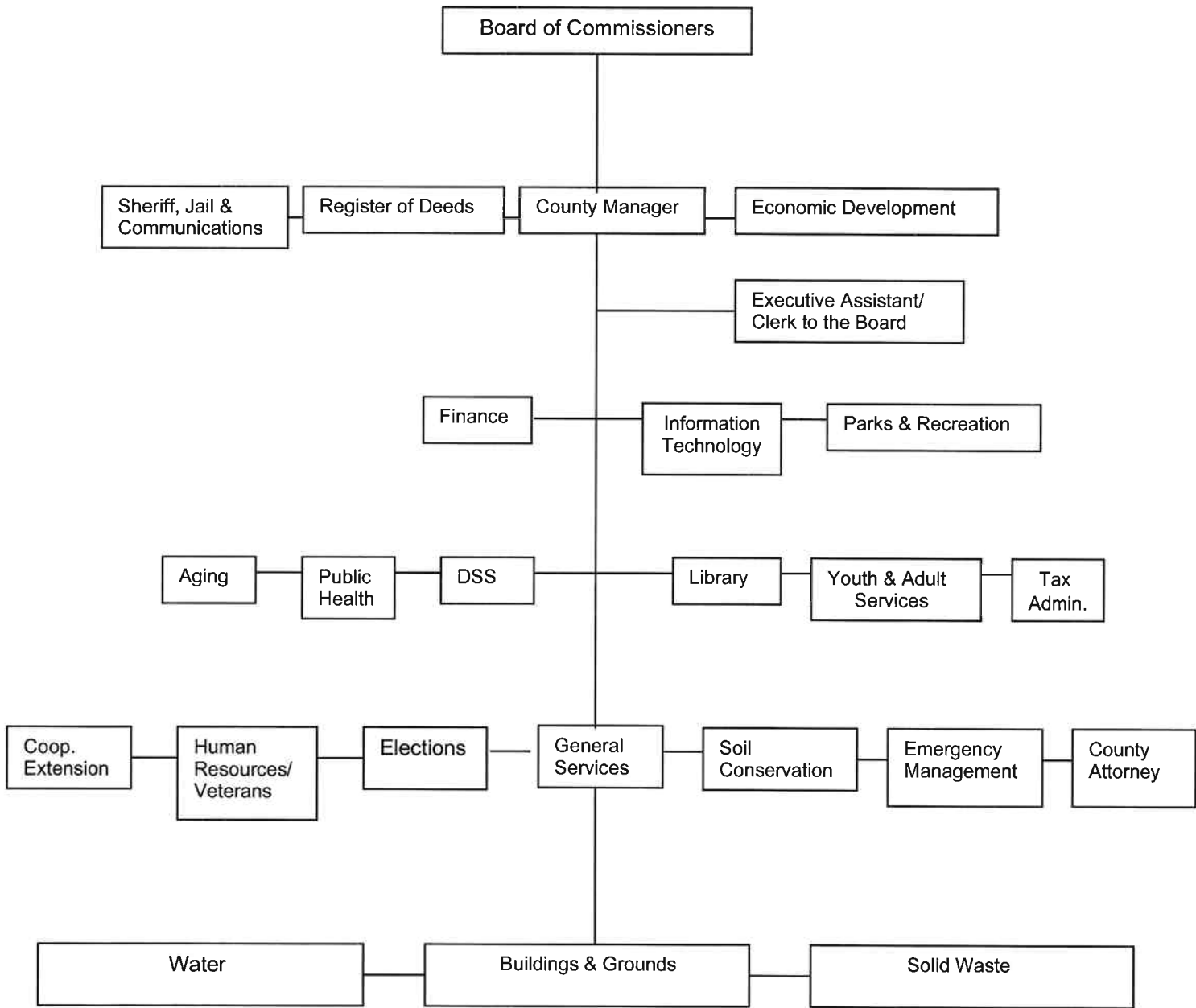
Register of Deeds

Kep Kepley

Tax Administrator

ORGANIZATIONAL CHART

THE COUNTY OF LEE



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